Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/21**

Paper 2 Structured Questions **May/June 2016**

2 hours 15 minutes

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Section A
Answer Question 1.

Section B
Answer any **three** questions.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **4** printed pages and **1** Insert.

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Section A

Answer this question.

1 Changes in car production

Car production is changing. Until recently car manufacturing firms had the most power in the market. Now, however, firms producing car parts are gaining more power. The markets for both cars and car parts consist of a relatively high number of firms that range from very large to small. In 2014 the market was dominated by sixteen major car firms, each selling more than one million cars a year. In that year there were ten major car part firms and these were gaining more power over the car producers.

The world's largest car part supplier by revenue claims to supply at least one of the parts in every car sold throughout the world. The firm has grown as a result of mergers and is moving towards total control of the market. It is seeking to build up high barriers to entry and to become the sole producer. The ten largest car part firms accounted for 63% of the total output of car parts in 2013, producing US$250 billion of car parts in that year. These ten firms now have the ability to build 85% of a car's internal systems, leaving the car manufacturing firms to make little more than the engine.

Car production is increasing in a number of developing countries but declining in some developed countries. Car manufacturing increased in the UK between 2013 and 2014, but the industry had been experiencing problems before 2013. In 2008 the average wage of car workers fell. In that year the UK experienced a recession. Real wages in the UK car industry for the lowest paid workers also declined after 2008 and the number of workers employed fell between 2008 and 2012. This was despite output per worker increasing, partly because some less skilled workers lost their jobs and the industry replaced some of these workers with capital equipment.

Buyers of cars often borrow money from commercial banks to make their purchases. In some cases buyers use their savings, which may be withdrawn from commercial banks, to buy cars.

The behaviour and performance of car firms are influenced by the economic system of the country they are producing in. In countries with a market system there is likely to be greater consumer sovereignty. Car firms in such countries may be more likely to innovate, bringing in new methods of production and developing higher-quality products.

(a) Using information from the extract, identify **two** characteristics of monopoly. [2]

(b) Calculate the total output of car parts in US$ in 2013. [3]

(c) Explain, using information from the extract, why wages in the UK car industry fell in 2008. [2]

(d) Using information from the extract, explain **two** merits of a market system. [4]

(e) Analyse **two** reasons, referred to in the extract, why a decrease in employment may increase labour productivity. [4]

(f) Discuss whether a declining car industry should be protected by the government. [5]

(g) Using information from the extract, explain **two** functions of commercial banks. [4]

(h) Discuss whether small car manufacturing firms can compete with large car manufacturing firms. [6]

Section B

Answer any **three** questions from this section.

2 Burundi is a country in Sub-Saharan Africa. In 2013 the government of Burundi introduced VAT, an indirect tax, while lowering corporation tax (the tax on firms' profits), from 35% to 30%. The United Nations has encouraged Sub-Saharan African countries to increase their tax revenue in order to have more funds available to spend on reducing poverty. There is, however, a debate about whether imposing more taxes or removing some taxes is more beneficial for an economy.

(a) Define 'an indirect tax'. [2]

(b) Explain how a cut in the rate of corporation tax could result in an increase in tax revenue. [4]

(c) Using a demand and supply diagram, analyse the effect of removing an indirect tax on the market for the product. [6]

(d) Discuss whether an increase in taxes will reduce inflation. [8]

3 The Canadian economy in 2014 was generally doing well. Money was largely retaining its value and unemployment was falling. The country did, however, have rising household debt and a deficit on the current account of its balance of payments. The Canadian Government in 2014 was seeking to increase exports whilst recognising that such an increase may have an impact on the exchange rate.

(a) Identify **two** functions of money. [2]

(b) Explain **two** reasons why household borrowing may increase. [4]

(c) Analyse **three** ways in which international trade differs from internal trade. [6]

(d) Discuss whether an increase in exports will increase the exchange rate. [8]

4 Increasing demand from China has made New Zealand the world's biggest exporter of dairy products. Its exports of milk to China increased by 45% in 2013. More than 300 000 hectares of land in New Zealand have been transferred to dairy use from other forms of farming and forestry use since 2000. The increase in milk production has caused the average cost of its production to fall and changes in production methods have affected the price elasticity of supply of milk.

(a) Why may less wheat be the opportunity cost of producing more milk? [2]

(b) Explain **two** reasons why the supply of a product may be price-inelastic. [4]

(c) Analyse how an increase in exports could increase a country's employment rate and inflation rate. [6]

(d) Discuss whether the average cost of production always decreases when a firm increases the total output that it produces. [8]

5 In January and February 2014 there were calls for the UK Government to build more flood defences. Homes, factories and other resources were damaged and some destroyed by floods. It was argued that government intervention was needed in this case as there was evidence of market failure.

(a) Define 'market failure'. [2]

(b) Explain how government regulation may reduce market failure. [4]

(c) Analyse the effect of a decrease in resources on government economic aims. [6]

(d) Discuss whether the social benefits of building flood defences will exceed the social costs involved. [8]

6 The year 2014 saw the longest-ever strike by platinum miners in South Africa. It involved 70 000 miners out of a total of 200 000 employed in the industry. These miners included migrant workers from neighbouring countries who had increased the size of the country's labour force. The strike cost the world's three largest platinum producing firms US$1.4 billion and reduced the country's exports of platinum.

(a) Identify **two** reasons why workers go on strike. [2]

(b) Explain **two** disadvantages of a decrease in a country's export revenue. [4]

(c) Analyse how a fall in a firm's revenue may influence its spending on capital goods. [6]

(d) Discuss whether an increase in a country's labour force will increase income per head. [8]

7 In 2014 Cuban doctors were given pay rises that significantly increased their salaries. This made doctors' pay more than twice that received by nurses. Cuba is devoting more resources to both medical care and tourism, altering the country's production possibility curve. Living standards are increasing in the country but at a slower rate than some other nearby countries.

(a) What is meant by a production possibility curve? [2]

(b) Explain, giving examples, **two** factors of production used in the tourism industry. [4]

(c) Analyse why doctors are paid more than nurses. [6]

(d) Discuss whether living standards are always lower in developing countries than in developed countries. [8]